

Endowment Fund Investment Board

Analyst: Houston

Historical Summary

OPERATING BUDGET	FY 2003 Total App	FY 2003 Actual	FY 2004 Approp	FY 2005 Request	FY 2005 Gov Rec
BY FUND CATEGORY					
Dedicated	587,600	534,400	630,300	547,300	550,200
Percent Change:		(9.1%)	17.9%	(13.2%)	(12.7%)
BY OBJECT OF EXPENDITURE					
Personnel Costs	390,000	335,400	408,800	335,800	338,700
Operating Expenditures	193,100	181,500	215,700	206,500	206,500
Capital Outlay	4,500	17,500	5,800	5,000	5,000
Total:	587,600	534,400	630,300	547,300	550,200
Full-Time Positions (FTP)	5.00	5.00	5.00	4.00	4.00

Division Description

The State Legislature created the Endowment Fund Investment Board in 1969 (Idaho Code §57-718), after the passage of a constitutional amendment in 1968. Through active management of the endowment funds (§57-721) and the State Insurance Fund (§72-912), the Endowment Fund Investment Board provides income to the funds' beneficiaries and growth of principal through realized gains. The board is also responsible for contracting the investment managers for the Judge's Retirement Fund (§1-2008).

The 1998 legislature approved four pieces of legislation (HJM 9, HJR 6, HJR 8, and HB 643aa) that began the latest round of "Endowment Reform". 1) HJM 9 requested that Congress allow proceeds from the sale of public school endowment lands to be deposited into a land bank to be used to purchase other lands. Congress later approved the memorial. 2) HJR 6 proposed amendments to the state constitution to change the word "disposal" to "sale" and to allow a land bank. Voters approved the constitutional amendment but the Supreme Court later invalidated the amendment, ruling that the amendment contained two questions and was not put properly before the people. The land board resubmitted the constitutional amendment regarding the land bank as HJR 1 in 2000 and the electorate approved the amendment in November of 2000. 3) HJR 8 proposed amendments to the State Constitution to allow the permanent fund to be invested rather than loaned, to create an earnings reserve, and to allow for payment of administrative costs from the earnings reserve. Voters approved that constitutional amendment in November of 1998. 4) HB 643aa of 1998 set up the distribution mechanisms necessary for the permanent funds, the earnings reserve and the income funds. The bill moved the Endowment Fund Investment Board from the Governor's Office to the Land Board effective July 1, 2000. Therefore, actual expenditures before FY 2001 are shown in the Executive Office of the Governor. The legislation also set up a land bank, and changed the makeup of the Board. The makeup of the nine member Board changed to remove the Superintendent of Public Instruction and the Director of the Department of Finance and replaced them with two "public members from the citizenry at large who are knowledgeable and experienced in financial matters and the placement or management of investment assets" (§57-718). SB 1107 of 1999 changed the effective date of certain sections of HB 643aa to allow investment in equities effective February 15, 1999.

Furthermore, HB 690aa of 1998 established the Capitol Commission and the Capitol Endowment from the former Public Building Endowment. The legislation became effective on July 1, 1998 creating a potential conflict with HB643aa which became effective July 1, 2000. However, during the 2000 session, the legislature resolved that conflict by repealing the Public Building Endowment.

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Comparative Summary

Decision Unit	Agency Request			Governor's Rec		
	FTP	General	Total	FTP	General	Total
FY 2004 Original Appropriation	5.00	0	630,300	5.00	0	630,300
Non-Cognizable Funds and Transfers	(1.00)	0	(54,000)	(1.00)	0	(54,000)
FY 2004 Estimated Expenditures	4.00	0	576,300	4.00	0	576,300
Removal of One-Time Expenditures	0.00	0	(5,800)	0.00	0	(5,800)
Base Adjustments	0.00	0	(27,000)	0.00	0	(27,000)
FY 2005 Base	4.00	0	543,500	4.00	0	543,500
Personnel Cost Rollups	0.00	0	5,200	0.00	0	5,200
Inflationary Adjustments	0.00	0	0	0.00	0	0
Replacement Items	0.00	0	5,000	0.00	0	5,000
Nonstandard Adjustments	0.00	0	(9,200)	0.00	0	(9,200)
Change in Employee Compensation	0.00	0	2,800	0.00	0	5,700
Fund Shifts	0.00	0	0	0.00	0	0
FY 2005 Program Maintenance	4.00	0	547,300	4.00	0	550,200
1. Continuous Appropriation	0.00	0	0	0.00	0	0
FY 2005 Total	4.00	0	547,300	4.00	0	550,200
Change from Original Appropriation	(1.00)	0	(83,000)	(1.00)	0	(80,100)
% Change from Original Appropriation			(13.2%)			(12.7%)

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Budget by Decision Unit	FTP	General	Dedicated	Federal	Total
FY 2004 Original Appropriation	5.00	0	630,300	0	630,300

Non-Cognizable Funds and Transfers

The Endowment Fund Investment Board decided to contract its bond investments and has eliminated one of the assistant investment manager positions. This decision unit anticipates the reversion of eight months of salary savings for that position for fiscal year 2004. The remaining portion is removed before the FY 2005 base. The costs of outsourcing the bond investments are funded through the continuous appropriation portion of the budget. The continuous appropriation is not statutory and must be considered each year.

Agency Request	(1.00)	0	(54,000)	0	(54,000)
Governor's Recommendation	(1.00)	0	(54,000)	0	(54,000)

FY 2004 Estimated Expenditures					
Agency Request	4.00	0	576,300	0	576,300
Governor's Recommendation	4.00	0	576,300	0	576,300

Removal of One-Time Expenditures

Removes \$5,800 in one-time funding provided to purchase computer equipment.

Agency Request	0.00	0	(5,800)	0	(5,800)
Governor's Recommendation	0.00	0	(5,800)	0	(5,800)

Base Adjustments

The Endowment Fund Investment Board decided to contract its bond investments and has eliminated one of the assistant investment manager positions. This decision unit removes the remaining four months of salary savings for that position from the base. Full-year salary was \$62,700 and benefits were \$18,300 for the position for a total of \$81,000. The costs of outsourcing the bond investments is funded through the continuous appropriation portion of the budget.

Agency Request	0.00	0	(27,000)	0	(27,000)
Governor's Recommendation	0.00	0	(27,000)	0	(27,000)

FY 2005 Base					
Agency Request	4.00	0	543,500	0	543,500
Governor's Recommendation	4.00	0	543,500	0	543,500

Personnel Cost Rollups

Includes the employer portion of estimated changes in employee benefit costs: \$3,300 (\$820 per position) for health insurance, \$1,500 for retirement, \$200 for unemployment, and \$200 for workers compensation.

Agency Request	0.00	0	5,200	0	5,200
Governor's Recommendation	0.00	0	5,200	0	5,200

Inflationary Adjustments

The Endowment Fund Investment Board chose not to request additional funding for inflationary costs.

Agency Request	0.00	0	0	0	0
Governor's Recommendation	0.00	0	0	0	0

Replacement Items

Replacement items include two computers at \$1,500 each and \$2,000 for office furniture.

Agency Request	0.00	0	5,000	0	5,000
Governor's Recommendation	0.00	0	5,000	0	5,000

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Budget by Decision Unit

	FTP	General	Dedicated	Federal	Total
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Nonstandard Adjustments

The agency requests a reduction of \$10,700 in operating expenditures because of improved efficiencies due to outsourcing the fixed income investments and eliminating the portfolio management system. This decision unit also includes the following adjustments for Statewide Cost Allocation: \$2,900 for Attorney General fees, (\$100) for risk management costs, and (\$1,300) for State Controller fees.

Agency Request	0.00	0	(9,200)	0	(9,200)
Governor's Recommendation	0.00	0	(9,200)	0	(9,200)

Change in Employee Compensation

Reflects the cost of a 1% salary increase for permanent positions.

Agency Request	0.00	0	2,800	0	2,800
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The Governor recommends a compensation increase of 2% to be distributed based on merit. No adjustment to the pay line is recommended.

Governor's Recommendation	0.00	0	5,700	0	5,700
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Fund Shifts

The request includes a fund shift of \$20,200 from the Endowment Administrative Fund to the State Insurance Fund to reflect an increase in the percentage of the State Insurance Fund's portion of the portfolio from 26.6% in FY 2003 to 30.1% in FY 2004.

Agency Request	0.00	0	0	0	0
Governor's Recommendation	0.00	0	0	0	0

FY 2005 Program Maintenance

Agency Request	4.00	0	547,300	0	547,300
Governor's Recommendation	4.00	0	550,200	0	550,200

1. Continuous Appropriation

The Endowment Fund Investment Board requests a continuous appropriation for consulting fees, bank custodial fees, and portfolio-related external costs. The variable costs associated with these services depend on the size of the portfolio and the turnover of investments. This uncertainty makes budgeting difficult. Legislative intent included in the appropriation bill allows the Legislature to re-evaluate the need for a continuous appropriation on an annual basis and to consider a fixed appropriation should the costs be determined to be more predictable. Actual costs paid through the continuous appropriation for FY 2001 were \$1,327,421 (the first full-year after endowment reform), \$3,215,995 for FY 2002, \$2,528,072 for FY 2003, and are estimated to be about \$3 million for FY 2004 and \$3.2 million for FY 2005.

Language Requested: The Endowment Fund Investment Board is hereby granted continuous appropriation authority for consulting fees, bank custodial fees, and portfolio-related external costs for the period July 1, 2004, through June 30, 2005.

Agency Request	0.00	0	0	0	0
Governor's Recommendation	0.00	0	0	0	0

FY 2005 Total

Agency Request	4.00	0	547,300	0	547,300
Governor's Recommendation	4.00	0	550,200	0	550,200

Agency Request

Change from Original App	(1.00)	0	(83,000)	0	(83,000)
% Change from Original App	(20.0%)		(13.2%)		(13.2%)

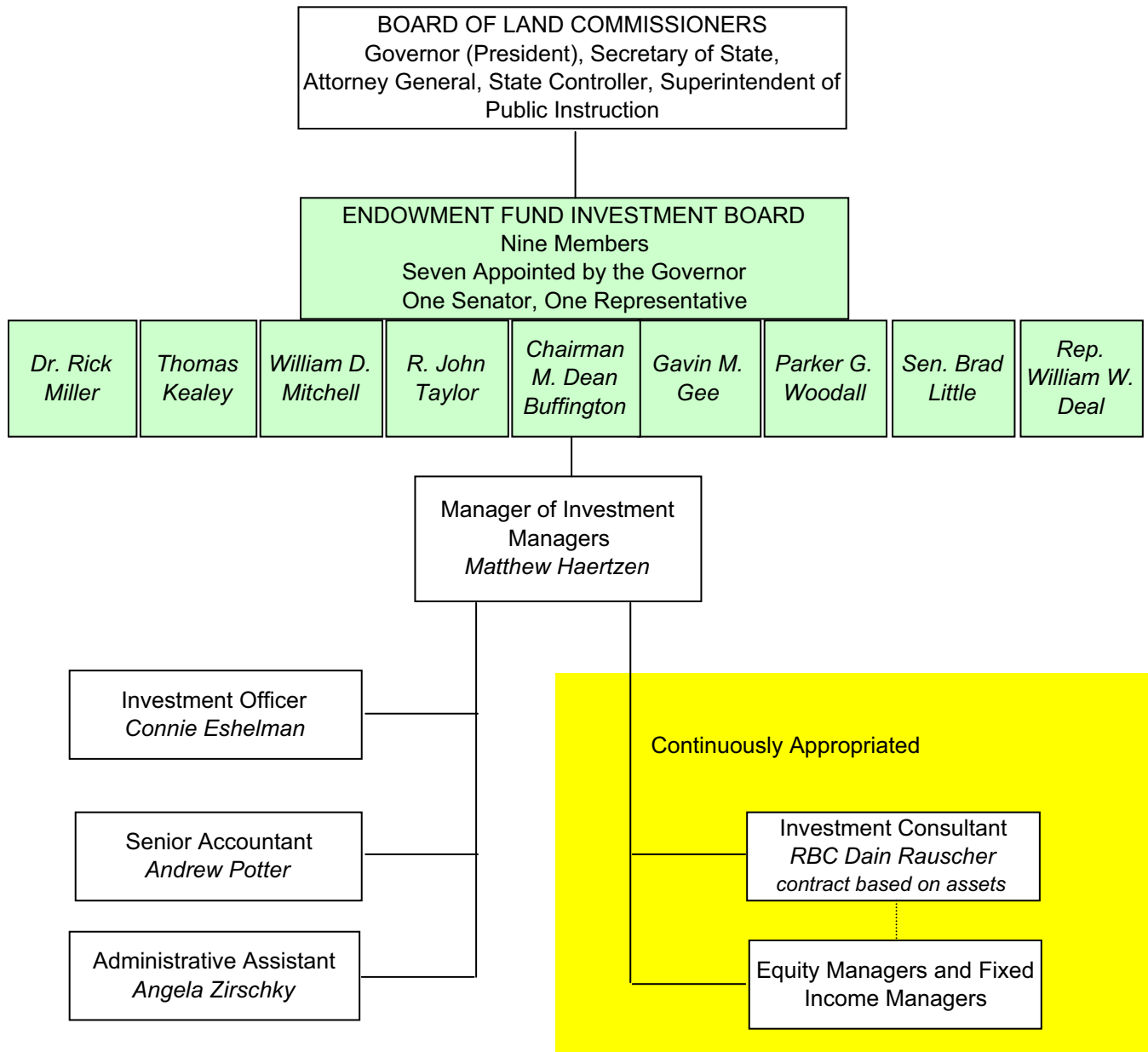
Governor's Recommendation

Change from Original App	(1.00)	0	(80,100)	0	(80,100)
% Change from Original App	(20.0%)		(12.7%)		(12.7%)

Endowment Fund Investment Board

Issues & Information

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State Insurance Fund - Performance

All dollar figures are in millions	FY 2002 Actual	FY 2003 Actual	FY 2004 Estimate	FY 2005 Estimate
1. State Insurance Fund (book values)	\$290.09	\$311.77	\$315.00	\$320.00
2. State Insurance Fund - income earned	\$15.64	\$12.70	\$13.00	\$13.50
3. Cost of management by Endowment Fund Investment Board	\$0.16	\$0.14	\$0.14	\$0.15
4. Admin. cost as a percentage of funds under management (a basis point is 1/100 of 1%)	0.06%	0.04%	0.04%	0.05%
5. State Insurance Fund - percentage return*	5.4%	4.2%	4.1%	4.3%

* Percentage return calculated as the income earned divided by the average of the current and previous fiscal year-end fund values.

Endowment Funds - Performance

1. Public School Endowment Fund Value	\$464.9	\$451.1	\$476.4	\$500.2
2. Pooled Endowment Funds Value	\$218.2	\$211.7	\$222.4	\$233.5
3. Total Public School and Pooled Endowments	<u>\$683.2</u>	<u>\$662.8</u>	<u>\$698.8</u>	<u>\$733.7</u>
4. Public School Endowment Distribution **	\$47.68	\$37.06	\$37.75	\$34.90
5. Pooled Endowment Distribution	\$21.97	\$19.93	\$17.36	\$16.00
6. Public School and Pooled Distributions	<u>\$69.64</u>	<u>\$56.98</u>	<u>\$55.11</u>	<u>\$50.90</u>
7. Cost of outside consultants, equity managers, and bank fees	\$3.22	\$2.53	\$3.00	\$3.20
8. Cost of management by Endowment Fund Investment Board	\$0.41	\$0.40	\$0.43	\$0.39
9. Admin. cost as a percentage of funds under management (a basis point is 1/100 of 1%)	0.53%	0.44%	0.49%	0.49%
10. Beginning Value July 1	801.9	683.2	662.8	698.8
Net Contributions (Distributions) ***	(22.4)	(32.1)	(26.1)	(20.9)
Investment Gain (Loss)	(96.3)	11.7	62.1	55.8
Ending Value June 30	683.2	662.8	698.8	733.7
All Endowments - percentage return****	-12.0%	1.7%	9.4%	8.0%

** FY 2002 based on 8.5% spending policy; FY 2003 fell short of 8.0% by \$6.2 million; FY 2004 & 05 based on 7.5% spending policy

*** Accounts for \$35 million net Lands contributions in FY 2003 and assumes \$29 million in FY 2004 and \$30 million in FY 2005.

**** Percentage return calculated as the Investment Gain (Loss) over beginning value.

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Endowment Distributions to the Beneficiaries

The Endowment Fund Investment Board (EFIB) makes semiannual distributions to the Public School Income Fund and monthly distributions to the seven pooled beneficiaries. The EFIB was unable to make the entire July 2003 distribution to public schools. The actual distribution fell \$6,256,500 short of the appropriation. Furthermore, the FY 2003 appropriation for Public Schools was already a \$4,362,000 reduction from the FY 2002 all-time high distribution of \$47,675,000.

Actual Endowment Distributions to the Beneficiaries

Institution (STARS Agency Code)	Actual Distributions			Approp FY 2003	Actual FY 2003	Dollar Difference	Percent Diff
	FY 2000	FY 2001	FY 2002				
Public Schools (170)	\$ 42,753,811	\$ 44,700,000	\$ 47,675,000	\$ 43,313,000	\$ 37,056,500	\$ (6,256,500)	(14.4%)
Agricultural College (514)	964,277	1,127,000	1,280,000	1,139,000	1,139,000	-	0.0%
Charitable Institutions							
4/15 Idaho State University (513)	1,014,991	1,200,533	1,246,133	1,085,333	1,085,333	-	0.0%
4/15 State Juv Corr Center (286)	1,014,991	1,200,533	1,246,133	1,085,333	1,085,333	-	0.0%
4/15 State Hospital North (270)	1,014,991	1,200,533	1,246,133	1,085,333	1,085,333	-	0.0%
5/30 Veterans Home (444)	634,369	750,333	778,833	678,333	678,333	-	0.0%
1/30 School for Deaf & Blind (502)	126,874	150,067	155,767	135,667	135,667	-	0.0%
Normal School							
1/2 to ISU Col of Ed (513)	1,935,034	1,894,000	2,034,000	1,847,500	1,847,500	-	0.0%
1/2 to LCSC (511)	1,935,034	1,894,000	2,034,000	1,847,500	1,847,500	-	0.0%
Penitentiary (230)	1,251,157	1,521,000	1,566,000	1,358,000	1,358,000	-	0.0%
School of Science (514)	3,778,442	4,479,000	4,709,000	4,254,000	4,254,000	-	0.0%
Mental Hospital (270)	2,462,520	1,845,000	2,024,000	1,905,000	1,905,000	-	0.0%
University of Idaho (514)	3,092,604	3,488,000	3,645,000	3,504,000	3,504,000	-	0.0%
Total Public School and Pooled	\$ 61,979,094	\$ 65,450,000	\$ 69,640,000	\$ 63,238,000	\$ 56,981,500	\$ (6,256,500)	(9.9%)

On August 29, 2003, the Endowment Fund Investment Board (EFIB) submitted their budget request to the Division of Financial Management and the Legislative Services Office. The budget contains their endowment distribution recommendations for FY 2005 using a spending policy of 7.5% of the three-year average market value of the permanent fund. For public schools, the FY 2005 recommendation is \$2.9 million less than the FY 2004 appropriation. Including the pooled endowments, the FY 2005 distribution is \$4.2 million or 7.6% less than this year. The Governor's FY 2005 recommendation calls for a 5% spending rule for Public Schools and a 7% spending rule for the pooled endowments.

Projected Distributions to the Beneficiaries

Institution (STARS Agency Code)	Approp FY 2004	7.5% Dist FY 2005	Diff 7.5% FY 05-04	Percent Diff	Gov Rec FY 2005	Diff Rec FY 05-04	Percent Diff
Public Schools (170)	\$ 37,750,000	\$ 34,900,000	\$ (2,850,000)	(7.5%)	\$ 22,957,800	\$ (14,792,200)	(39.2%)
Agricultural College (514)	960,000	827,000	(133,000)	(13.9%)	760,800	(199,200)	(20.8%)
Charitable Institutions							
4/15 Idaho State University (513)	914,700	816,000	(98,700)	(10.8%)	750,640	(164,060)	(17.9%)
4/15 State Juv Corr Center (286)	914,700	816,000	(98,700)	(10.8%)	750,640	(164,060)	(17.9%)
4/15 State Hospital North (270)	914,700	816,000	(98,700)	(10.8%)	750,640	(164,060)	(17.9%)
5/30 Veterans Home (444)	571,700	510,000	(61,700)	(10.8%)	469,150	(102,550)	(17.9%)
1/30 School for Deaf & Blind (502)	114,400	102,000	(12,400)	(10.8%)	93,830	(20,570)	(18.0%)
Normal School							
1/2 to ISU Col of Ed (513)	1,597,500	1,490,000	(107,500)	(6.7%)	1,370,650	(226,850)	(14.2%)
1/2 to LCSC (511)	1,597,500	1,490,000	(107,500)	(6.7%)	1,370,650	(226,850)	(14.2%)
Penitentiary (230)	1,215,000	1,233,000	18,000	1.5%	1,134,200	(80,800)	(6.7%)
School of Science (514)	3,785,000	3,410,000	(375,000)	(9.9%)	3,136,900	(648,100)	(17.1%)
Mental Hospital (270)	1,660,000	1,630,000	(30,000)	(1.8%)	1,499,400	(160,600)	(9.7%)
University of Idaho (514)	3,110,000	2,860,000	(250,000)	(8.0%)	2,630,900	(479,100)	(15.4%)
Total Public School and Pooled	\$ 55,105,200	\$ 50,900,000	\$ (4,205,200)	(7.6%)	\$ 37,676,200	\$ (17,429,000)	(31.6%)